AMERICAN AUTOMOTIVE
LEASING ASSOCIATION

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COMMENTS OF
AMERICAN AUTOMOTIVE LEASING ASSOCIATION
SUBMITTED TO THE DEPARTMENT OF ENERGY
IN CONNECTION WITH THE DEPARTMENT'S IMPLEMENTATION OF
SECTION 704 OF THE ENERGY POLICY ACT OF 2005

American Automotive Leasing Association (AALA) is pleased to submit these comments in connection with the Department's implementation of section 704 of the Energy Policy Act of 2005 (2005 EPACT). AALA, which represents the fleet leasing and management industry, has been an active participant in DOE's multi-year proceedings to implement the Energy Policy Act of 1992 (1992 EPACT) provisions regarding potential acquisition mandates on private commercial fleets. For these and other reasons, AALA offers its views on the issues raised by section 704 of 2005 EPACT.

While tempted to comment on the six elements that section 704 identifies, AALA believes that the DOE has more than adequate data at hand and the staff expertise to properly analyze it. Instead, these comments address the overarching question of whether DOE should reverse its determination that private sector light duty fleets should not be targeted to bear the burden of vehicle acquisition mandates. As explained below, private sector light duty fleet purchase mandates are counterproductive, fundamentally flawed as a policy option, and have not succeeded in the past.

These comments consist of: (1) a brief overview of the fleet industry; (2) an explanation why fleet purchase mandates are counter-productive due to migration to unmanaged driver reimbursement programs and the loss of the efficiencies and economic benefits provided by managed fleets; and (3) a review of why private sector light duty fleet purchase mandates have not been, nor can they be, effective reducing America's dependence on foreign sources of petroleum.

1. AALA and the Fleet Industry

AALA is a trade association representing the fleet leasing and management industry. The industry owns approximately 3,560,000 of the cars and light-duty vehicles used by businesses throughout the United States. While these vehicles are used predominantly for sales and service functions, the range of commercial and State and local governmental fleet usage is significant.

In contrast to the consumer car leasing business that limits itself to offering the retail public alternative financing, AALA members provide comprehensive fleet consulting and management services to commercial, non-profit, and governmental organizations. The range of services includes:

(1) selecting and acquiring the most appropriate and cost-effective vehicle for the particular work to be performed;

(2) assisting in operating and maintaining those vehicles safely and economically, including designing and implementing fueling, maintenance, and safety programs, as well as ensuring compliance with State and local registration and operating requirements; and

(3) reclaiming, at the end of the lease, the highest value from the vehicle through auction, public sale, or other disposal, and putting into the public market well-maintained vehicles that have significant remaining useful life.

2. Managed fleets contribute to greater fuel economy and emissions reductions, which fleet acquisition mandates can undermine.

Fleets provide tangible fuel economy (and commensurate air quality benefits) over general population vehicles because fleets are managed to extract the maximum economic value from each vehicle. Fleets generate energy benefits in numerous ways.

For example, fleet vehicles are better maintained, on average, than general population vehicles. For economic and other reasons, fleets ensure that vehicles and their subsystems, such as emission control equipment, are properly inspected and maintained. Regular vehicle inspection and maintenance provide numerous benefits, including enhanced safety, improved emission performance, and better fuel economy. Properly maintained vehicles emit less pollution and consume less fuel. In contrast, general population vehicles tend to be poorly maintained, even when they are operated in regions of the country that are subject to Clean Air Act requirements relating to vehicle inspection and maintenance.

Fleet vehicles also are "right-sized." Vehicle size is an important factor in determining how much fuel a vehicle consumes. Fleets carefully select their vehicles to be no larger than is necessary for the task at hand, in large measure to conserve fuel and thus reduce costs. In contrast, the general population tends to acquire vehicles that may be larger than necessary (such as sport utility vehicles) or without regard to a vehicle's fuel economy.

In addition, fleet vehicles are proactively cycled out of the fleet at the right time to ensure the lowest total operating cost of the fleet. This increases the frequency in which these companies acquire new vehicles which enables them to select the most fuel efficient options more often and be positioned to choose the best economically fuel-efficient feasible solution available. The general population typically only considers their monthly payment and consequently drives their vehicles for several years longer which results in a slower migration to the most fuel efficient vehicles available as well as operating vehicles that emit far more particulates into the environment.

Fleet mandates, such as those required to be considered under the 1992 EPACT undermine these benefits by creating an incentive for managed fleets to disband in favor of driver reimbursement programs. Fleets exist when the economics of vehicle acquisition, operation, maintenance and disposal dictate that such decisions be made collectively in the form of a fleet. If the economics no longer work because a governmental mandate tells the fleet what vehicles to acquire, the fleet typically has the option of reconstituting itself as a driver reimbursement program. Employees in driver reimbursement programs use their personal vehicles to conduct company business and the company (or government agency), in turn, reimburses its employees for work-related expenses associated with the vehicles' use (fuel charges, for example). Because driver reimbursement programs rely upon employee-provided vehicles, the energy and environmental benefits are lost.

3. Private sector light duty fleet purchase mandates are a flawed policy option for achieving energy independence

The flawed notion that government could change the composition of the general public's vehicle usage by dictating to private sector fleet operators what vehicles to acquire and what fuels to use saw its peak during the early 1990's in the public debate leading to the Clean Air Act Amendments of 1990 and the 1992 EPACT. Both of those laws attempted to use fleet programs to advance air quality and/or non-petroleum based fuel goals, as discussed further below. The history of those fleet programs teaches that those laudable policy goals cannot be achieved through private sector light duty fleet purchase mandates.

The Clean Air Act Amendments of 1990 established a fleet mandate program that States having severe ozone pollution were to adopt (or to create an alternative program generating equivalent emission reductions). Known as the Clean Fuel Fleet Program (CFFP), the program was intended to encourage the purchase and use of EPA-certified clean vehicles, including AFV's, into high-pollution urban areas. The CFFP was supposed to be implemented in twenty-two major metropolitan areas. That broad geographic scope was never achieved because state regulators concluded that regulating fleets in that manner was not good public policy. While the CFFP is still in effect, it is now only implemented in three areas: Milwaukee-Racine, Wisconsin; Chicago-Gary-Lake County, Illinois/Indiana; and Atlanta, Georgia. In other words, 86% of the originally regulated areas opted-out primarily for reasons related to program effectiveness, cost and the like.

The CFFP has effectively been subsumed by a host of more reasonable efforts, such as EPA's voluntary SmartWay™ Transport Partnership program. In less than two years of operation, the SmartWay™ program has attracted participation from more than three hundred business – the vast majority of which are heavy duty fleets and related trucking interests -- and is on track to reduce, by 2012, between 33 and 66 million metric tons of carbon dioxide emissions and up to 200,000 tons of nitrogen oxide emissions per year. At the same time, the SmartWay™ program will result in fuel savings of up to 150 million barrels of oil annually, according to EPA figures. When compared to the CFFP, the phenomenal success of the SmartWay™ program demonstrates that voluntary actions work.

The 1992 EPACT created a two-phase rulemaking process for private fleets, as DOE is well aware. In its final determination of the 1992 EPACT private & local government fleet rulemaking, DOE stated:

> First and foremost, DOE has concluded that the number of fleets that would be covered by a private and local government fleet mandate and the number of AFV acquisitions that would occur in those fleets as a result of the mandate are too small to cause more than a negligible in crease in the percentage of replacement fuel that is used a motor fuel. *69 Fed. Reg. 4219, 4220 (Jan. 28, 2004).*

Indeed, DOE concluded that a fleet mandate would merely change the identity of a small percentage of the total number of AFV purchasers because the OEMs were already producing more AFVs than the fleet mandate could absorb. Id.

Since that determination, our nation has seen substantial spikes in oil prices, increasing instability in the regions from which we import petroleum, and a greater public – and political – awareness of the need for some kind of policy response. AALA appreciates those factors but urges DOE not to reverse its decision that private fleet mandates are the wrong policy solution for the energy issues facing the country. Current events do not change the reality of private sector light duty fleet operations and economics. As discussed above, managed fleet operations are highly cost/benefit sensitive; even slight economic burdens will drive corporate decision-makers to replace their managed fleets with a driver reimbursement program. An expansion of driver reimbursement programs at the expense of managed fleet operations would lead to perverse effects – to wit, the latter's beneficial attributes of energy savings and improved air quality would be replaced by the former's negative attributes of higher fuel use and poorer air quality.

Whatever else DOE says in its section 704 report, we believe that the Department has ample evidence to note that incentives, not mandates, are an effective policy option. The recent increase in the price of oil has led to the successful development AFV technology, with the development and commercialization of hybrid-electric vehicles being the most obvious example. If the government wants to spur the AFV market, it should stand by and let market forces work. Nearly 88,000 hybrid-electric vehicles were sold nationwide during 2004, making up 0.52 percent of the total U.S. light-vehicle market, reports J.D. Power and Associates, a marketing information and research firm based in Agoura Hills, Calif.[1] Those car sales are spurred by market forces – e.g., oil prices – and incentives – HOV lane access and the like.

Market acceptance of AFV's would obviously not be a challenge if their cost were lower than traditional vehicles. But, as with any new technology whose scale and scope economies have yet to kick in, the cost challenges come at the early stages. The initial market success of hybrid electric vehicles demonstrates that the general public is willing to pay some premium for AFV's.[2] The challenge for DOE

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[1] http://www.bankrate.com/brm/news/auto/20030507a1.asp

[2] http://money.cnn.com/2005/09/23/Autos/hybrid_alternatives/index.htm analyzes what the cost of fuel must be to economically justify various hybrid vehicle acquisitions. For a similar analysis that looks at payback periods required to accommodate the incremental costs of hybrid. See http://runzheimer.com/Web/ALL/news.2005.11.30.aspx

and federal policymakers generally is to pursue policy options that foster cooperative – not adversarial – relationships between fleets and governments.

In reaffirming its decision not to regulate private fleets, DOE would once again find itself pursuing sound policy. Congressman Joe Barton (R-TX), current chairman of the House Energy and Commerce Committee, wrote to DOE in support of its earlier decision not to implement a private fleet mandate. His letter of June 1, 2003, stated in part:

> "As you may be aware, at a different stage in the evolution of this issue, I had proposed legislation that is consistent with your determination [not to issue a private fleet mandate]. Section 402 of H.R. 4288 of the 104th Congress stated (1) a sustainable market for natural gas and other low emission vehicles requires cooperation by and among fleet operators, other users, fuel providers and vehicle manufacturers, (2) government mandates requiring private sector fleet purchases do not support such cooperative efforts, (3) the low emission vehicle market should be based on voluntary, economically sound decisions, and (4) market oriented incentives can provide an appropriate and effective means for developing a self-sustaining market for such vehicles and fuels."

Those sentiments are as true today as they were when penned in 2003.

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We appreciate the opportunity to submit these comments.

Paul Smith
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